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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C., 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

RG2-2267

For Quarter Ended **March 31, 1992** MAY 15 1992 Commission File No. **33-1983**

SURETY CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**75-2065607**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

1845 Precinct Line Road, Suite 100, Hurst, Texas 76054
(Address of principal executive offices)

PROCESSED BY
MAY 19 1992

(817) 498-8154
(Registrant's telephone number, including area code)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the registrant (1) has all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _x_ No___

Common stock outstanding on April 30, 1992, 19,814,470 shares

SURETY CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 1992 and December 31, 1991
(Unaudited)

	March 31, 1992	December 31, 1991
Assets:		
Cash and due from banks	$ 1,578,210	$ 1,354,473
Federal funds sold	7,020,000	5,060,000
Cash and cash equivalents	8,598,210	6,414,473
Investment securities	94,000	50,500
Net loans	19,509,353	18,914,350
Premises and equipment, net	875,606	907,516
Accrued interest receivable	48,278	48,861
Other real estate and repossessed assets	71,233	108,738
Other assets	72,444	52,073
Excess of cost over fair value of net assets acquired, net of accumulated amortization of $67,868 and $60,526 at March 31, 1992 and December 31, 1991, respectively	372,998	380,340
Total assets	$29,642,122	$26,876,851
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 3,857,306	$ 2,574,153
Savings, NOW and money markets	6,531,659	6,611,231
Time deposits, $100,000 and over	4,247,782	4,334,765
Other time deposits	11,298,694	9,814,756
Total deposits	25,935,441	23,334,905
Accrued interest payable and other liabilities	155,577	279,151
Total liabilities	26,091,018	23,614,056
Commitments and contingent liabilities (Notes 5 and 6)		
Shareholders' equity:		
Common stock, $.01 par value, 20,000,000 shares authorized, 18,835,005 and 17,670,621 shares issued and outstanding at March 31, 1992 and December 31, 1991, respectively	188,350	176,706
Additional paid-in capital	4,286,273	4,021,098
Accumulated deficit	(923,519)	(935,009)
Total shareholders' equity	3,551,104	3,262,795
Total liabilities and shareholders' equity	$29,642,122	$26,876,851

The accompanying notes are an integral part of the consolidated financial statements.

SURETY CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended March 31, 1992 and 1991
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Interest income:		
Commercial and real estate loans	$ 179,926	$ 134,371
Consumer loans	188,577	146,816
Insurance premium financing	352,097	302,546
Federal funds sold	61,870	80,014
Investment securities	1,118	10,167
Other interest income	1,724	3
Total interest income	785,312	673,917
Interest expense:		
Interest bearing transaction accounts	62,306	54,209
Time deposits, $100,000 and over	57,371	122,795
Other time deposits	146,494	160,177
Notes payable		3,602
Total interest expense	266,171	340,783
Net interest income before provision for loan losses	519,141	333,134
Provision for loan losses	80,000	
Net interest income	439,141	333,134
Noninterest income	156,249	101,825
Noninterest expense:		
Salaries and employee benefits	259,742	220,401
Occupancy and equipment	91,715	91,921
General and administrative	232,443	172,188
Total noninterest expense	583,900	484,510
Income (loss) before federal income taxes and extraordinary item	11,490	(49,551)
Federal income tax provision	1,724	
Income (loss) before extraordinary item	9,766	(49,551)
Extraordinary item:		
Tax effect of net operating loss carryforward	1,724	
Net income (loss)	$ 11,490	($ 49,551)
Income (loss) before extraordinary item per share of common stock	$.00	
Income (loss) per share of common stock	$.00	($0.01)
Weighted average shares outstanding	18,617,483	10,854,963

The accompanying notes are an integral part
of the consolidated financial statements.

SURETY CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the three months ended March 31, 1992 and
the year ended December 31, 1991
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Equity
	Shares	Par Value	Shares	Par Value			
Balance at 12/31/90	11,240	$112	9,882,159	$ 98,822	$1,655,169	($344,697)	$1,409,406
Preferred stock dividend, $2.625 per share					(26,810)		(26,810)
Conversion of 11,240 shares of preferred stock	(11,240)	(112)	562,000	5,620	(5,508)		0
Sale of common stock			7,226,462	72,264	2,398,247		2,470,511
Net loss						(590,312)	(590,312)
Balance at 12/31/91	-0-	-0-	17,670,621	176,706	4,021,098	(935,009)	3,262,795
Sale of common stock			1,164,384	11,644	265,175		276,819
Net income						11,490	11,490
Balance at 3/31/92	-0-	$-0-	18,835,005	$188,350	$4,286,273	($923,519)	$3,551,104

The accompanying notes are an integral part
of the consolidated financial statements.

SURETY CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31, 1992 and 1991
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Cash flows from operating activities:		
Net income (loss)	$ 11,490	($ 49,551)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loan losses	80,000	
Depreciation and amortization	52,070	58,098
Net (increase) decrease in other assets	17,717	(78,247)
Net (decrease) increase in other liabilities	(123,574)	10,878
Net cash used in operating activities	37,703	(58,822)
Cash flows from investing activities:		
Purchase of investment securities	(43,500)	
Purchase of premises and equipment	(12,818)	(1,586)
Net increase in loans	(935,919)	(300,233)
Payments received on purchased accounts receivable	2,658,349	653,652
Purchases of accounts receivable	(2,397,433)	(764,210)
Net cash used in investing activities	(731,321)	(412,377)
Cash flow from financing activities:		
Payments on notes payable		(662,660)
Proceeds from borrowings on notes payable		300,000
Increase in deposits	2,600,536	1,751,153
Sale of common stock	276,819	380,000
Preferred stock dividends		(4,856)
Net cash provided by financing activities	2,877,355	1,763,637
Net increase in cash	2,183,737	1,292,438
Beginning cash and cash equivalents	6,414,473	5,612,438
Ending cash and cash equivalents	$8,598,210	$6,305,173
Supplemental disclosure:		
Cash paid during the period for interest	$ 282,288	$ 324,891

The accompanying notes are an integral part
of the consolidated financial statements.

SURETY CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

The condensed financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. In the opinion of the Company, all adjustments consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of March 31, 1992, and the results of its operations and its cash flows for the indicated periods have been included. The results of operations for such interim period are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 1992.

2. Net Loans:

At March 31, 1992 and December 31, 1991, the loan portfolio was composed of the following:

	March 31, 1992	December 31, 1991
Premium financing	$ 8,732,021	$ 8,265,490
Commercial loans	4,657,296	4,886,201
Installment loans	7,071,992	6,669,688
Real estate loans	692,004	738,950
Total loans	21,153,313	20,560,329
Add (deduct):		
Deferred loan origination costs	56,164	58,169
Unearned interest	(1,384,653)	(1,360,942)
Allowance for loan losses	(315,471)	(343,206)
Net loans	$19,509,353	$18,914,350

Activity in the allowance for loan losses is as follows:

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Beginning balance	$343,206	$276,473
Provision for loan losses	80,000	
Loans charged off, net of recoveries	(107,735)	(35,525)
Ending balance	$315,471	$240,948

2. Net Loans, continued:

Loans on which the accrual of interest has been discontinued amounted to approximately $259,000 and $349,000 at March 31, 1992 and December 31, 1991, respectively.

3. Federal Income Tax:

Income tax expense during the three months ended March 31, 1992 contains a charge in lieu of federal income taxes that would have been required to be paid had the Company not been able to utilize an operating loss carryforward. The tax benefit in the amount of $1,724, resulting from such utilization, is shown as an extraordinary item during the period.

4. Regulatory Commitments:

The Company is subject to a number of specific regulatory commitments regarding the acquisition of the Bank and the operations of the Company and the Bank, as described below.

- Comptroller Acquisition Commitment. In connection with the Company's acquisition of the Bank, the Company and the directors of the Bank made the following commitments to the Comptroller by a letter dated November 20, 1989: (i) they will make every effort to abide by the moderate growth projections as set forth in the application submitted to the Federal Reserve and they will promptly advise the Comptroller in writing of any material deviation therefrom; (ii) with respect to the loan portfolio mix of the Bank, they will cause the premium financing loan concentration to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iii) the foregoing commitments shall stay in full force and effect until lifted by mutual agreement between the Company, the Bank and the Comptroller.

- Federal Reserve Acquisition Commitment. In connection with the acquisition of the Bank, the Company also made a number of commitments to the Federal Reserve in a letter dated November 30, 1989, including the following: (i) the Company will not incur any additional indebtedness without the prior approval of the Federal Reserve; (ii) the Company will not repurchase, redeem or retire any shares of its preferred stock if after such repurchase, redemption or retirement its debt-to-equity ratio will exceed thirty percent (30%); (iii) with respect to the Bank's loan portfolio, the Company will cause the premium financing loan concentration of the Bank to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iv) the Company will not permit the Bank to acquire brokered funds without the prior approval of the Comptroller.

4. Regulatory Commitments, continued:

- Comptroller Formal Agreement. Since June 26, 1990, the Bank has operated pursuant to a Formal Agreement (the "Formal Agreement") with the Comptroller that requires: (i) achievement and maintenance of an equity capital ratio of at least 5% and development of a capital plan; (ii) development of an annual budget; (iii) implementation of a three-year strategic plan; (iv) adoption of a written program to address deficiencies in insurance premium financing; (v) development of an acceptable methodology for establishing its allowance for loan losses and maintenance of an adequate allowance; and (vi) correction of violations of law. The Formal Agreement was adopted to replace a cease and desist order which was in place prior to the acquisition of the Bank by the Company. The Bank was examined by the Comptroller on November 30, 1991 and this examination included a review of the Bank's compliance with the Formal Agreement. The Comptroller found that as of November 30, 1991 the Bank was in compliance with the provisions of the Formal Agreement, except for the maintenance of an adequate allowance for loan losses and an updated strategic plan. Since that examination, the Bank has increased its allowance for loan losses based upon the most recently available information pertinent to the Company's methodology and has provided the Comptroller with an updated strategic plan. The Company believes that the Bank is now in material compliance with the Formal Agreement, but has not received confirmation from the Comptroller of the Bank's compliance.

- Federal Reserve Memorandum of Understanding. At the last inspection of the Company by the Federal Reserve, the Company was criticized regarding a number of actions including violations of Regulation Y regarding affiliate transactions between the Company and the Bank, unauthorized loans to insiders, and failure to meet commitments upon its acquisition of the Bank. As a result, the Company entered into a Memorandum of Understanding with the Federal Reserve (the "Memorandum"). Pursuant to the Memorandum, the Company agreed to (i) not declare or pay any dividends without prior approval of the Federal Reserve; (ii) submit to the Federal Reserve a written plan to maintain an adequate capital position at the Bank, including the maintenance of adequate risk-based and leverage capital ratios; (iii) not increase its borrowings or incur any debt without the prior written approval of the Federal Reserve; (iv) notify the Federal Reserve in writing in advance of any proposed changes in senior management or directors of the Company; (v) not engage in any lending activity without the prior written approval of the Federal Reserve; and (vi) other miscellaneous matters regarding the Company's operations and business.

5. Concentration of Credit Risk:

The subsidiary bank has a significant concentration of credit, based upon like collateral, in its insurance premium finance portfolio. Insurance premium finance comprises $8,470,125 or (43%) and $7,806,000 or (41%) of consolidated total loans net of unearned interest as of March 31, 1992 and December 31, 1991, respectively. As of March 31, 1992, no group of borrowers writing insurance through any one insurance company represents 10% or more of the Bank's premium finance loans, other than Anchorage Fire & Casualty Insurance Company, which represented approximately 15% of the insurance premium finance loans and approximately 6% of total loans at March 31, 1992.

6. Shareholders' Equity:

During the three months ended March 31, 1992, 1,164,384 shares of the Company's common stock were sold in private placements and incentive stock option exercises, for total consideration, net of expenses, of $276,819.

7. Subsequent Events:

On April 1, 1992, 979,465 shares of common stock were sold in a private placement for an aggregate purchase price of $600,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

General

Effective December 30, 1989, the Company became a bank holding company registered under the Bank Holding Company Act of 1956, as amended, through the acquisition of Texas National Bank of Lufkin (the "Bank"). Prior to the consummation of this transaction, the Company had principally engaged in the casualty insurance premium financing business, utilizing lines of credit granted by various financial institutions as its source of funds.

Management of the Company has successfully merged its existing insurance premium financing business into the Bank as depicted below:

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
INSURANCE PREMIUM FINANCING:		
Average balance outstanding	$ 8,100,947	$ 6,278,958
Average yield	17.4%	19.3%
Interest income	$ 352,097	$ 302,546
CONSUMER, COMMERCIAL AND REAL ESTATE FINANCING:		
Average balance outstanding	$10,762,215	$ 8,691,794
Average yield	13.8%	12.9%
Interest income	$ 370,227	$ 281,190
COST OF FUNDS:		
Average balance outstanding	$24,905,277	$21,009,586*
Average interest rate	4.3%	6.5%
Interest expense	$ 266,171	$ 340,783
AVERAGE MONTHLY AMOUNTS:		
Total interest income	$ 261,770	$ 224,639
Total interest expense	$ 88,724	$ 113,594
Provision for loan losses	$ 26,667	
Noninterest income	$ 52,083	$ 33,942
Noninterest expense	$ 194,633	$ 161,503

Note: *Average balances are computed using daily balances throughout each period.*

Three Months Ended March 31, 1992 Versus Three Months Ended March 31, 1991.

The Company earned $11,490 during the three months ended March 31, 1992 compared to $49,551 in losses during the three months ended March 31, 1991.

Total interest income increased 16.5% to $785,312 from $673,917, while total interest expense decreased 21.9% to $266,171 from $340,783, resulting in a 55.8% increase in net interest income before provision for loan losses to $519,141 from $333,134. The Company's loan growth between these two periods was diversified in all aspects of the loan portfolio. The average volume of consumer, commercial, and real estate lending increased 23.8%, with a modest increase in average yields on those loans from 12.9% to 13.8%. However, the 29.0% growth in the average volume of insurance premium loans was partially offset by a decline in the average yield on those loans from 19.3% to 17.4%. The declining average interest rates paid as a cost of funding this growing loan portfolio also contributed substantially to the increase in net interest income. The average balance of interest bearing deposits increased 18.5%, while the average rate paid dropped from 6.5% to 4.3%, reflecting an overall decline in interest rates in the market.

The rapid growth in the loan portfolio, while generating a 55.8% increase in net interest income before provision for loan losses, has also necessitated increased provisions for loan losses. The Company recorded an $80,000 provision for loan losses during the three months ended March 31, 1992 compared to no provision during the three months ended March 31, 1991. This increase resulted not only from the growth in the Company's loan portfolio, but also from adverse collection experience in the consumer installment portfolio. As the Company's ratio of net charge-offs to average loans increased from .2% to .6% for these periods, the Company provided increasingly larger amounts, through charges to earnings, to maintain the allowance for loan losses at an adequate level. Further deterioration in the loan portfolio may result in the need for additional provisions for loan losses in the future.

The Company's noninterest income increased 53.4% to $156,249 from $101,825 for the three months ended March 31, 1992 and 1991, respectively. This increase compares to a corresponding increase in average noninterest bearing deposits of 50.5% to $3,181,730 from $2,113,722 for these same periods. Noninterest bearing deposits normally generate the majority of noninterest income through service charges.

Noninterest expense increased 20.5%, primarily the result of a 17.8% increase in salaries and employee benefits and a 35.0% increase in general and administrative expenses. The increase in salaries and benefits was due primarily to additional staffing required by the Bank's loan and deposit growth and the establishment of the secured credit card program. Increases in general and administrative expenses relate primarily to legal and professional fees, FDIC assessments, and costs associated with the secured credit card program.

Parent Company Only Results of Operations.

As discussed above, the Company did not own the Bank prior to December 30, 1989. Since that time, the Company has served as a parent company to the Bank and has wound down the Company's own separate business activities. For the three months ended March 31, 1992, the Company had no income, other than equity in net income of the subsidiary bank of approximately $86,000, and approximately $75,000 in noninterest expenses. The noninterest expenses, which increased 47% from the same period in the prior year, consisted primarily of legal and professional fees incurred in the operation of the Company and in the maintenance of the Company's public company status under applicable securities laws and regulations.

AVERAGE BALANCE SHEET

	Three Months Ended March 31, 1992		
	Average Balance	Interest	Average Rate
ASSETS:			
Interest earnings assets:			
U.S. Treasury and agency securities	$ 68,186	$ 1,118	6.6%
Federal funds sold	6,391,648	61,870	3.9%
Loans	19,181,368	722,324	15.1%
Allowance for loan losses	(318,206)		
Total interest earning assets	25,322,996	785,312	12.4%
Cash and due from banks	1,669,667		
Premises and equipment	868,925		
Accrued interest receivable	46,703		
Other real estate owned	31,615		
Other assets	519,513		
Total assets	$28,479,419		
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Interest bearing liabilities:			
Interest bearing demand deposits	$ 6,742,184	$ 62,306	3.7%
Savings deposits	708,977	5,714	3.2%
Time deposits	14,272,386	198,151	5.6%
Federal funds purchased and other borrowed funds			
Total interest bearing liabilities	21,723,547	266,171	4.9%
Net interest income		$519,141	
Net interest spread		7.50%	
Net interest income to average earning assets		8.20%	
Noninterest bearing deposits	3,181,730		
Other liabilities	200,908		
Total liabilities	25,106,185		
Shareholders' equity	3,373,234		
Total liabilities and shareholders' equity	$28,479,419		

Allowance for Loan Losses

The Company recorded an $80,000 provision for loan losses during the three months ended March 31, 1992 compared to no provision during the three months ended March 31, 1991. The Company's provision for loan losses is based upon quarterly loan portfolio reviews by management. The purpose of the reviews is to assess loan quality, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the market economy. Loan losses different from the allowance provided by the Company are likely, and loan losses in excess of the allowance for loan losses are possible. Loan losses in excess of the amount of the allowance could and probably would have a material adverse effect on the financial condition of the Company. See above for additional discussion.

The ratio of charge-offs, net of recoveries, to average loans during the three months ended March 31, 1992 was .56%. The ratio of the allowance for loan losses to total loans was 1.60% on March 31, 1992. The allowance for loan losses was $315,471 on March 31, 1992.

Current Trends and Uncertainties

The Company is subject to a number of specific regulatory commitments regarding the acquisition of the Bank and the operations of the Company and the Bank, as described below.

- Comptroller Acquisition Commitment. In connection with the Company's acquisition of the Bank, the Company and the directors of the Bank made the following commitments to the Comptroller by a letter dated November 20, 1989: (i) they will make every effort to abide by the moderate growth projections as set forth in the application submitted to the Federal Reserve and they will promptly advise the Comptroller in writing of any material deviation therefrom; (ii) with respect to the loan portfolio mix of the Bank, they will cause the premium financing loan concentration to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iii) the foregoing commitments shall stay in full force and effect until lifted by mutual agreement between the Company, the Bank and the Comptroller.

- Federal Reserve Acquisition Commitment. In connection with the acquisition of the Bank, the Company also made a number of commitments to the Federal Reserve in a letter dated November 30, 1989, including the following: (i) the Company will not incur any additional indebtedness without the prior approval of the Federal Reserve; (ii) the Company will not repurchase, redeem or retire any shares of its preferred stock if after such repurchase, redemption or retirement its debt-to-equity ratio will exceed thirty percent (30%); (iii) with respect to the Bank's loan portfolio, the Company will cause the premium financing loan concentration of the Bank to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iv) the Company will not permit the Bank to acquire brokered funds without the prior approval of the Comptroller.

- Comptroller Formal Agreement. Since June 26, 1990, the Bank has operated pursuant to the Formal Agreement with the Comptroller that requires: (i) achievement and maintenance of an equity capital ratio of at least 5% and development of a capital plan; (ii) development of an annual budget; (iii) implementation of a three-year strategic plan; (iv) adoption of a written program to address deficiencies in insurance premium financing; (v) development of an acceptable methodology for establishing its allowance for loan losses and maintenance of an adequate allowance; and (vi) correction of violations of law. The Formal Agreement was adopted to replace a cease and desist order which was in place prior to the acquisition of the Bank by the Company. The Bank was examined by the Comptroller on November 30, 1991 and this examination included a review of the Bank's compliance with the Formal Agreement. The Comptroller found that as of November 30, 1991 the Bank was in compliance with the provisions of the Formal Agreement, except for the maintenance of an adequate allowance for loan losses and an updated strategic plan. Since that examination, the Bank has increased its allowance for loan losses based upon the most recently available information pertinent to the Company's methodology and has provided the Comptroller with an updated strategic plan. The Company believes that the Bank is now in material compliance with the Formal Agreement, but has not received confirmation from the Comptroller of the Bank's compliance.

Federal Reserve Memorandum of Understanding. At the last inspection of the Company by the Federal Reserve, the Company was criticized regarding a number of actions including violations of Regulation Y regarding affiliate transactions between the Company and the Bank, unauthorized loans to insiders, and failure to meet commitments upon its acquisition of the Bank. As a result, the Company entered into a Memorandum of Understanding with the Federal Reserve (the "Memorandum"). Pursuant to the Memorandum, the Company agreed to (i) not declare or pay any dividends without prior approval of the Federal Reserve; (ii) submit to the Federal Reserve a written plan to maintain an adequate capital position at the Bank, including the maintenance of adequate risk-based and leverage capital ratios; (iii) not increase its borrowings or incur any debt without the prior written approval of the Federal Reserve; (iv) notify the Federal Reserve in writing in advance of any proposed changes in senior management or directors of the Company; (v) not engage in any lending activity without the prior written approval of the Federal Reserve; and (vi) other miscellaneous matters regarding the Company's operations and business.

These regulatory requirements and commitments may limit the otherwise permissible business activities of the Company and the Bank and, as such, have an adverse effect on the Company and the Bank. Noncompliance with these regulatory requirements and commitments or any other regulatory or legal requirements of the Company or the Bank could lead to administrative actions or sanctions, including regulatory cease and desist orders, and other regulatory actions as deemed appropriate which could have a material adverse effect on the Company and the Bank.

Current economic trends and other developments, such as substantial reductions of workforce by several large defense-related employers located in the Company's market area could adversely affect the Company's operations. Bell Helicopter and General Dynamics, major defense-related employers in Tarrant County, Texas, have reduced their local work forces by several thousand employees since the beginning of 1989. As the repercussions of such lay-offs, both directly on affected workers and indirectly on area businesses, make themselves fully felt, the subsidiary Bank could experience increased loan delinquencies and losses, decreased loan demand, decreased deposit growth and other symptoms of a depressed local economy.

The Bank does not carry any fidelity or indemnity insurance with regard to actions by employees. The Bank has attempted to obtain coverage at reasonable costs, but has been unable to do so. Federal banking regulations require the Bank to carry such fidelity insurance; however, national bank examiners have been made aware of the Bank's inability to qualify and have not cited the Bank for failure to have such insurance. A loss which would have been covered by insurance if carried could have a material adverse effect on the Company and the Bank. The Bank does not have any pending claims or actions regarding its employees which would have been covered by fidelity insurance if carried by the Bank. The Company is not aware of any persons employed at the Bank who would not be bondable.

The Company may be affected by other uncertainties. Regulatory changes may increase the Company's cost of doing business or otherwise impact it adversely.

Liquidity

The Company's investment securities portfolio, including federal funds sold, and its cash and due from bank deposit balances serve as the primary sources of liquidity. At March 31, 1992, 19.2% of the Bank's interest bearing liabilities were in the form of time deposits of $100,000 and over. If a large number of these time deposits matured at approximately the same time and were not renewed, the Bank's liquidity could be adversely affected. Currently, the maturities of the Bank's large time deposits are spread throughout the year, and the Bank monitors those maturities in an effort to minimize any adverse effect on liquidity.

As a result of the Company's acquisition of the Bank, it has replaced, as a funding source, borrowings from other banks with the deposits accepted by the Bank. Additionally, the Company raised approximately $277,000 during the three months ended March 31, 1992 through the sale in private offerings and incentive stock option exercises of the Company's common stock.

In the longer term, the ability of the Company to meet its cash obligations will depend substantially on its receipt of dividends from the Bank, which are limited by banking statutes and regulations. At March 31, 1992, the Bank had an accumulated deficit of approximately $480,000. The ability of the Bank to pay dividends will be limited until such time that this accumulated deficit is eliminated through profitable operations.

Capital Resources

Shareholders' equity at March 31, 1992 was $3,551,104 as compared to $3,262,795 at December 31, 1991. The increase in equity has been the result of the sale of 1,164,384 shares of common stock by the Company. The Company had consolidated earnings of $11,490 for the three months ended March 31, 1992.

As of December 31, 1992, at which time the risk-based capital framework will be fully implemented, the Bank will be expected to meet a minimum risk-based capital ratio to risk-weighted assets ratio of 8%, of which at least one-half or 4%, must be in the form of Tier 1 (core) capital. The remaining one-half, or 4%, may be either in the form of Tier 1 (core) or Tier 2 (supplementary) capital. The amount of loan loss allowances that may be included in capital after the transition period is limited to 1.25% of risk-weighted assets. The ratio of Tier 1 (core) and the combined amount of Tier 1 (core) and Tier 2 (supplementary) capital to risk-weighted assets for the Bank was 13.2% and 14.7%, respectively, at December 31, 1991 and 13.1% and 14.3%, respectively, at March 31, 1992. The Bank is currently, and expects to continue to be, in compliance with these guidelines through their full implementation.

Pursuant to the Formal Agreement between the Comptroller and the Bank, discussed above, the bank is required to maintain an equity capital to total assets ratio of at least 5% at all times. For purposes of this requirement, the Bank's equity capital consists of common stockholders' equity and preferred stock and related surplus. Common stockholders' equity means common stock, common stock surplus, undivided profits, capital reserves, adjustments for the cumulative effect of foreign currency translation and net unrealized losses on noncurrent marketable equity securities. The Bank's equity capital to total assets ratio was 9.4% at March 31, 1992.

Failure to meet capital requirements in the future could expose the Company and the Bank to possible administrative action by regulatory agencies, including action in the form of sanctions and cease and desist orders, or such other action as the regulatory agency deems appropriate.

The Company has committed to the Federal Reserve that it will not increase its borrowings or incur any debt without the prior written approval of the Federal Reserve. The inability of the Company to borrow could impair the Company's ability to increase capital of the Bank and could have a material adverse effect on the Company.

While the Company believes it has sufficient financing for its working capital needs until the end of its 1992 fiscal year, there can be no assurance that the Company's present capital and financing will be sufficient to finance future operations thereafter. If the Company sells additional shares of common and/or preferred stock to raise funds, the terms and conditions of the issuances and any dilutive effect may have an adverse impact on the existing shareholders. If additional financing becomes necessary, there can be no assurance that the financing can be obtained on satisfactory terms. In this event, the Company could be required to restrict its operations.

The Federal Reserve has announced a policy sometimes known as the "source of strength doctrine" that requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. The Federal Reserve has interpreted this requirement to require that a bank holding company, such as the Company, stand ready to use available resources to provide adequate capital funds to their subsidiary banks during periods of financial stress or adversity. The Federal Reserve has stated that it would generally view a failure to assist a troubled or failing subsidiary bank in these circumstances as an unsound or unsafe banking practice or a violation of Regulation Y or both, justifying a cease and desist other or other endorsement action, particularly if appropriate resources are available to the bank holding company on a reasonable basis. The requirement that a bank holding company, such as the Company, make its assets and resources available to a failing subsidiary bank could have an adverse effect upon the Company and its shareholders.

The Company intends to raise additional funds through private placements of its equity securities. The Company is subject to the uncertainties of the private placement market for small companies. Failure of the Company to obtain required equity through private placements or other sources could have an adverse effect on the Company.

Effects of Inflation

A financial institution's asset and liability structure is substantially different from that of an industrial company, in that virtually all assets and liabilities are monetary in nature and, therefore, the Company's operations are not affected by inflation in a material way. Other factors, such as interest rates and liquidity, exert greater influence on a bank's performance than does inflation. The effects of inflation, however, can magnify the growth of assets in the banking industry. If significant, this would require that equity capital increase at a faster rate than would otherwise be necessary.

PART II - OTHER INFORMATION

Item 1. **Legal Proceedings.**

Not applicable.

Item 2. **Changes in Securities.**

Not applicable.

Item 3. **Defaults Upon Senior Securities.**

Not applicable.

Item 4. **Submission of Matters to a Vote of Security Holders.**

Not applicable.

Item 5. **Other Information.**

Not applicable.

Item 6. **Exhibits and Reports on Form 8-K.**

(a) Exhibits

There are no exhibits to this Form 10-Q.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the three months ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 14, 1992

Surety Capital Corporation

By: _____
C. Jack Bean
President and Chief Executive Officer

And by: _____
Bob Hackler, Vice President
and Chief Financial Officer

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